

Applied Skills

# Taxation – Malawi (TX – MWI)

Tuesday 4 December 2018



**Time allowed:** 3 hours 15 minutes

This question paper is divided into two sections:

Section A – ALL 15 questions are compulsory and **MUST** be attempted

Section B – ALL SIX questions are compulsory and **MUST** be attempted

Tax rates and allowances are on pages 2–3.

**Do NOT open this question paper until instructed by the supervisor.**

**Do NOT record any of your answers on the question paper.**

**This question paper must not be removed from the examination hall.**

MWI  
–  
TX

Think Ahead



The Association of Chartered  
Certified Accountants

The Institute of Chartered  
Accountants in Malawi

## SUPPLEMENTARY INSTRUCTIONS

1. Calculations and workings need only be made to the nearest K.
2. All apportionments should be made to the nearest month.
3. All workings should be shown in Section B.

## TAX RATES AND ALLOWANCES

The following rates of tax and allowances are to be used when answering the questions.

### Income tax rates: Individuals

Non-employment income		
K	Rate	Cumulative
0 – 360,000	0%	0
360,001 – 420,000	15%	9,000
420,001 +	30%	–
Employment income		
K	Rate	Cumulative
0 – 360,000	0%	0
360,001 – 420,000	15%	9,000
420,001 – 36,000,000	30%	10,674,000
36,000,001 +	35%	

### Company rate

Locally incorporated	30%
Externally incorporated	35%

### Annual allowance – rates

(Guidelines laid down by the Commissioner of Taxes)

5%	– Industrial buildings
	– Railway lines
	– Farm improvements
10%	– General plant and machinery
	– Trailers
	– Farm fencing
	– Furniture and fittings
15%	– Mobile cranes
17.5%	– General plant and equipment on double shift
20%	– Motor cycles
	– Cars
	– Pick-ups
	– Light lorries (for light work)
	– Cement mixers
	– Tractors

- 25% – Light lorries (for heavy work)  
– Tippers  
– Tracked tractors  
– Tree-dozers  
– Scrapers  
– Graders  
– Bulldozers  
– General plant and equipment working 24 hours a day  
– Tractors (for heavy work)  
– Transport services
- 40% – Computers

#### Value added tax (VAT)

Standard rate 16·5%  
Zero rate 0%

#### Consumer price indices – 1970 to 2017 – with 1970 as base year

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2017	243,824.58	249,607.83	248,499.30	225,763.10	228,715.44	223,457.87	–	–	–	–	–	–
2016	206,343.66	214,900.03	209,405.94	204,091.98	203,551.58	200,759.50	199,138.29	201,660.17	211,117.21	214,629.83	224,897.47	235,435.32
2015	167,164.48	174,279.78	171,577.77	168,785.69	167,614.82	163,561.80	161,310.12	164,192.27	174,279.78	178,783.13	187,519.64	196,256.15
2014	137,892.68	145,548.39	145,188.12	142,035.77	140,234.43	135,010.54	132,038.32	133,569.46	140,414.56	143,386.78	150,502.07	157,167.04
2013	109,521.56	116,816.99	116,997.12	114,565.31	114,385.18	110,152.03	107,900.35	107,269.88	113,484.51	116,276.59	121,680.61	126,634.30
2012	83,377.59	86,883.28	87,128.91	85,565.86	86,414.37	85,320.23	85,632.84	86,369.71	92,912.19	95,212.11	100,481.83	105,505.92
2011	75,562.33	78,375.82	78,219.52	76,075.91	73,664.34	71,051.81	70,359.61	68,818.89	72,391.57	72,905.15	75,383.70	78,398.15
2010	70,917.84	73,240.09	72,994.46	71,051.81	68,841.21	66,384.99	65,491.82	63,951.10	67,188.85	67,412.14	69,220.81	71,409.08
2009	65,759.77	67,680.09	67,367.48	65,737.44	63,839.45	61,718.17	61,025.96	59,641.55	62,789.98	63,169.57	65,045.23	67,188.85
2008	59,753.19	61,718.17	61,517.21	60,177.45	58,726.04	56,917.37	56,493.11	55,331.99	58,413.43	58,882.35	60,691.02	62,455.04
2007	55,460.11	57,170.73	56,858.78	55,656.63	54,406.44	52,459.53	51,945.52	50,708.09	53,432.79	53,803.44	55,376.71	56,810.74
2006	50,607.39	52,370.52	52,334.19	51,343.65	50,409.84	48,725.50	48,362.06	47,293.71	49,895.80	50,175.08	51,569.07	52,827.34
2005	43,350.64	44,738.86	44,886.38	44,217.91	43,548.66	42,268.81	42,072.68	42,212.39	44,691.78	45,219.75	46,685.98	47,968.15
2004	38,023.19	39,160.38	39,074.52	38,342.29	37,712.14	36,484.76	36,396.35	36,595.05	38,601.75	39,021.11	40,184.33	41,158.25
2003	34,542.41	35,522.11	35,283.50	34,499.01	33,870.39	32,690.06	32,669.80	32,892.31	34,792.78	34,791.72	35,610.47	36,188.95
2002	31,215.57	32,136.43	32,008.29	31,428.31	31,073.19	30,123.08	30,064.68	30,176.49	31,854.72	31,772.63	32,476.50	32,959.58
2001	27,025.48	27,650.37	27,307.29	27,067.69	26,932.97	26,048.57	26,253.60	26,213.45	27,596.56	28,138.41	28,989.11	29,564.96
2000	21,437.32	22,140.68	22,393.50	21,843.06	21,556.52	20,849.76	20,890.28	20,273.19	22,206.90	23,316.65	25,167.35	25,876.31
1999	16,472.36	16,963.03	17,380.67	17,240.65	17,474.00	17,061.91	16,674.36	15,643.06	17,080.66	17,281.18	18,650.51	19,104.26
1998	10,585.99	10,861.27	11,095.49	11,240.59	11,310.41	11,192.45	11,092.32	10,959.01	12,521.99	13,057.91	14,071.28	14,894.59
1997	8,958.45	9,159.98	9,242.13	9,355.56	9,403.61	9,334.57	9,278.04	8,716.08	8,752.50	8,804.78	9,239.28	9,728.72
1996	8,378.59	8,552.39	8,605.29	8,729.21	8,797.22	8,776.06	8,721.66	7,953.92	7,867.78	7,866.27	8,174.57	8,448.11
1995	4,887.51	5,144.43	5,339.39	5,510.16	5,673.38	5,809.40	6,002.84	6,093.52	6,474.37	6,962.51	7,485.42	7,916.14
1994	2,835.18	2,957.59	3,055.83	3,083.03	3,087.57	3,033.16	3,030.14	3,129.88	3,376.22	3,748.00	4,127.33	4,524.80
1993	2,356.10	2,404.46	2,424.11	2,413.53	2,398.42	2,372.73	2,353.08	2,427.13	2,531.41	2,602.44	2,687.07	2,726.37
1992	1,757.63	1,819.59	1,825.64	1,866.44	1,929.92	1,905.74	2,026.64	2,093.14	2,165.68	2,215.55	2,280.54	2,303.21
1991	1,576.28	1,588.37	1,594.41	1,614.06	1,615.57	1,627.66	1,651.84	1,647.31	1,653.35	1,682.07	1,685.09	1,692.65

**Section A – ALL 15 questions are compulsory and MUST be attempted**

Please use the grid provided on page two of the Candidate Answer Booklet to record your answers to each multiple choice question. Do not write out the answers to the MCQs on the lined pages of the answer booklet.  
Each question is worth 2 marks.

- 1** John Mwase imported a sedan from Japan; cost, insurance and freight (CIF) Lilongwe. The vehicle was manufactured in 2012 and imported into Malawi in June 2018. The vehicle has an engine capacity of 1400cc.

**Which of the following taxes will be paid by John on the importation of this motor vehicle?**

- (1) Customs duty
- (2) Excise duty
- (3) Non-resident tax
- (4) Withholding tax
- (5) Value added tax (VAT)

- A** 1, 3 and 4
- B** 1, 2 and 3
- C** 1 and 5
- D** 2, 4 and 5

- 2** Which of the following transactions are NOT exempt from capital gains taxation?

- (1) Sale of a holiday home
- (2) Sale of a motor vehicle
- (3) Transfer of shares to a spouse
- (4) Sale of a farm

- A** 2 and 3
- B** 3 and 4
- C** 1 and 2
- D** 1 and 4

- 3** Lisungwi Mining Limited mines precious stones. The commercial value of the precious stones mined in the year to 31 December 2017 was K5 million.

**What is the total royalty payable by the company for the year ended 31 December 2017?**

- A** K250,000
- B** K500,000
- C** K375,000
- D** K750,000

- 4** Dzuka Limited, which prepares accounts to 31 December each year, incurred the following additional expenditure towards the end of 2017: fringe benefits K365,000, advertising K465,000, laptop computer K585,000, bonus K400,000. A donation to a local church of K65,000 was included as part of advertising expenditure.

**What is the total additional expenditure that will be allowable as a deduction against the company's taxable profits in the year ended 31 December 2017?**

- A** K1,295,000
- B** K1,385,000
- C** K865,000
- D** K800,000

- 5 Dexter Limited prepares its financial statements to 30 June each year. In 2017, it changed its accounting date to 31 December. The company informed the Malawi Revenue Authority about this change.

**On what date will tax be payable by Dexter Limited based on the financial statements prepared to the new accounting date?**

- A 30 June 2018
- B 25 April 2018
- C 25 October 2017
- D 31 December 2017

- 6 Lumumba is employed by Crio Limited. He is paid a salary of K2,500,000 per month. The company provides him with the use of a free unfurnished house for which the company pays a rent of K240,000 per month. The company also pays the utility company for electricity used by Lumumba at K40,000 per month.

**What is the fringe benefits tax payable by Crio Limited on the benefits per quarter?**

- A K252,000
- B K216,000
- C K261,000
- D K225,000

- 7 Mayeso, a registered dealer in second hand vehicles, sold a vehicle on 18 June 2018 for K835,000. This vehicle had been purchased for K435,000 from his friend, who is not registered for value added tax (VAT). Mayeso paid K165,000 (to VAT-registered persons) for repairs making the vehicle ready for resale.

All figures are inclusive of VAT where appropriate.

**How much net value added tax (VAT) should have been paid to the Malawi Revenue Authority by Mayeso on the above transactions?**

- A K118,262
- B K94,893
- C K33,283
- D K38,775

- 8 Which of the following are indirect taxes?

- (1) Customs duty
- (2) Fringe benefits tax
- (3) Value added tax (VAT)
- (4) Corporate tax

- A 1 and 4
- B 2 and 3
- C 2 and 4
- D 1 and 3

- 9 Dango Limited's profit before tax for the year ended 31 December 2017 was K950,000 after charging depreciation of K300,000, provision for stock losses of K65,000 and after crediting profit on sale of assets of K125,000. Capital allowances have been agreed at K325,000.

The balance of tax losses from the year ended 31 December 2011, which have not been offset against taxable profits, amounted to K80,900. Capital losses for the year to December 2017 were K45,000.

**What is the taxable income of Dango Limited for the year ended 31 December 2017?**

- A K865,000  
B K820,000  
C K784,100  
D K800,000
- 10 Lisford, aged 21, commenced employment on 1 April 2018. His salary is K80,000 per month and he is paid a housing allowance of 10% of basic salary. His employer has enrolled him in a pension scheme to which he contributes 5% and the employer contributes 12% of monthly salary.

Lisford has not been employed before.

**What is the monthly PAYE deduction from Lisford's salary for the year ended 30 June 2018?**

- A K16,650  
B K15,450  
C K0  
D K14,250
- 11 During the year to 30 June 2018, John Banda sold shares he held in both listed and unlisted Malawian companies as follows:

Company	Date purchased	Gain/(loss) K
Illovo	27 August 2016	35,600
Sunbird	2 May 2010	15,000
Mpico	15 October 2017	117,500
Malengu (unlisted)	5 December 2005	78,500
TNM	1 January 2018	(8,500)

**What is the amount of the capital gain which John will declare in his tax return for the tax year 2017/2018?**

- A K196,000  
B K129,100  
C K109,000  
D K187,500
- 12 Which of the following are the purposes of taxation in an economy?
- (1) To raise funds for government expenditure  
(2) To encourage commitment to work  
(3) To provide finance to companies in financial trouble  
(4) To redistribute wealth between the rich and poor
- A 3 and 4  
B 1 and 4  
C 1 and 3  
D 2 and 4

- 13** Morgan owns a house which was lived in by his mother rent free. The house was subsequently rented out on 1 January 2018 for K100,000 per month. The expenses incurred in connection with the property included: insurance for the year at K24,000; maintenance work in October 2017 at K185,000; repainting work in December 2017 at K198,500 (to make the house rentable) and construction of a driveway at K325,000. The repainting work and driveway construction were carried out by Morgan.

**What is Morgan's taxable income from the property for the tax year ended 30 June 2018?**

- A** K398,500
- B** K64,500
- C** K192,500
- D** K52,500

- 14** Dexter Limited forecast its taxable income for the year ended 31 December 2017. In light of the forecast, it made quarterly provisional tax payments of K6 million. This amount was paid for each of the first three quarters. It is now estimated that the taxable profits for the year will be higher than the original forecast by 15%. As a result, the company will adjust its provisional tax payments for the last quarter to avoid penalties on submission of its tax return.

**What is the minimum amount of provisional tax which Dexter Limited must pay by the last quarter for the year ended 31 December 2017?**

- A** K6,900,000
- B** K9,600,000
- C** K6,840,000
- D** K6,210,000

- 15** Bill and Wenam are in partnership, sharing profits 6:4. During the year ended 30 June 2018, they bought a motor vehicle for use in the partnership at a cost of K8,000,000 and laptop computers worth K850,000. Capital allowances claimable on the other assets were agreed at K465,000.

**What will be the capital allowances to be claimed by the partnership for the year ended 30 June 2018?**

- A** K4,175,000
- B** K2,575,000
- C** K4,005,000
- D** K2,405,000

**(30 marks)**

**Section B – ALL SIX questions are compulsory and MUST be attempted**

Please write your answers to all parts of these questions on the lined pages within the Candidate Answer Booklet.

- 1 (a)** Muscat Limited rents out office property. In addition, it operates a supermarket.

The following are the transactions of Muscat Limited, exclusive of any applicable value added tax (VAT), for the month ended 30 June 2018:

	Notes	K '000
<b>Income:</b>		
Rental income	(1)	4,500
Supermarket sales		2,800
Supermarket sales – exempt		350
		<hr/> 7,650
<b>Expenditure:</b>		
Purchases from VAT-registered suppliers		4,500
Purchases from unregistered suppliers		1,000
Depreciation		350
Motor lorry		1,500
Electricity		65
Water		15
Printing and stationery		75
Hotel accommodation		12
Repairs and maintenance	(2)	45
Wages and salaries		250
Fringe benefits		40
		<hr/> 7,852

**Notes:**

- (1) An invoice for K125,000, being rental for one of the tenants for June 2018, was not issued until 5 July 2018 and is not included in rental income.
- (2) Repairs and maintenance relates to spare parts for a vehicle used personally by the accountant.

**Additional information:**

Where relevant, all suppliers are VAT-registered unless otherwise stated.

The VAT return for the month of April 2018, showing VAT payable of K45,000, was submitted on 30 June 2018 and the VAT due was also paid on that date. The bank rate is 16%.

**Required:**

- (i) Calculate the penalty and interest payable by Muscat for the late submission of the value added tax (VAT) return and late payment of VAT for the month of April 2018. (2 marks)
- (ii) Calculate the VAT payable or refundable by Muscat Limited for the month ended 30 June 2018.

Note: You should clearly identify any item on which VAT is not chargeable or claimable by the use of a zero (0). (7 marks)

- (b) Explain how VAT is accounted for on taxable services provided by a non-resident supplier to a VAT registered person. (1 mark)

**(10 marks)**



- 2 Zalewa Mining Limited mines commercial minerals. The company obtained its mining licence four years ago.

The following information is available in connection with the activities of the company for the year ended 31 March 2018:

	K
Profit before tax	3,500,600
<b>After charging:</b>	
Depreciation of motor vehicles	565,000
Amortisation of mining rights	500,000
<b>After crediting:</b>	
Exchange gain (unrealised)	335,000
Interest receivable (gross)	175,000

The following further information is available which has not been included in the figures presented above:

- (i) Royalties paid were K350,000.
- (ii) Contributions paid to a mine closure fund were K65,500.
- (iii) Expenditure incurred on obtaining the granting of a licence was K300,500.
- (iv) Value added tax (VAT) refunds of K425,500 relating to the mining activity were received.
- (v) Equipment, which will have no value after mining activities cease, was purchased for K4,650,000. The useful life of the equipment is five years.
- (vi) Provisional tax paid during the year was K400,000.

**Required:**

- (a) Calculate the taxable income of Zalewa Mining Limited for the year ended 31 March 2018. (5 marks)
- (b) Calculate the tax payable by Zalewa Mining Limited, including resource rent tax, for the year ended 31 March 2018. (5 marks)

**(10 marks)**

**3** Bengo's transactions in respect of his assets for the year ended 30 June 2017 were as follows:

- (i) A cottage he owned as a holiday home was destroyed by fire on 1 January 2017. The cottage cost Bengo K4,500,000 in December 2000. He carried out renovations to the cottage in July 2015, at a cost of K3,500,000. The cottage was insured and he received a settlement of K65,000,000 on 15 May 2017.

Bengo intends to rebuild the cottage in 2018 at an estimated cost of K75,000,000, payable by 31 October 2018.

- (ii) He sold two parcels of land for total proceeds of K10,500,000 on 6 June 2017. The total cost of the land was K2,500,000 in April 2005. Bengo intends to use the proceeds to pay school fees for his children.
- (iii) Bengo holds 100,000 shares in NICOM, a listed company. The shares were bought at K2 per share when the company had an initial public offering in August 2016. In June 2017, he agreed to a share swap of 30,000 NICOM shares, where, in exchange for each NICOM share, he accepted two shares in Malibu, a subsidiary of NICOM, at a value of K1.50 per share. The transaction was completed by 30 June 2017.

**Required:**

- (a) **Calculate the total chargeable gains or capital loss arising on the transactions entered into by Bengo for the tax year ended 30 June 2017, assuming Bengo makes all elections which would reduce the tax payable for the year.** (8 marks)

- (b) **Explain the effects on Bengo's tax position if:**

- the proceeds on the sale of the land were to be invested into rebuilding of the cottage, instead of being spent on school fees; and if
  - Bengo had not agreed to the share swap.
- (2 marks)

**(10 marks)**

- 4 Sambuca Limited is a manufacturing company registered in Malawi. It prepares its financial statements to 31 December each year.

The company's abridged results for the past three years are as follows:

	Notes	2015 K	2016 K	2017 K
Profit/(loss) before capital allowances		585,000	(324,600)	465,000
Capital gains/(losses)		(85,000)	165,000	57,000
Dividends from local companies	(1)	60,000	45,000	65,000
Profit on sale of assets	(1)	65,000	0	95,100
Depreciation	(2)	250,000	175,000	165,000
Capital allowances		275,000	150,000	145,000

**Notes:**

- (1) Dividends from local companies and profit on sale of assets are included in the profit/(loss) before capital allowances.
- (2) Depreciation has been deducted in arriving at the profit/(loss) before capital allowances.

**Required:**

- (a) Explain how trading and capital losses are dealt with for tax purposes. (3 marks)
- (b) Compute the taxable income of Sambuca Limited for each of the three years ended 31 December, offsetting losses as early as possible. Your answer should clearly show your treatment of trading and capital losses. (7 marks)

**(10 marks)**

- 5 Peter Samu is employed by Mandingo Limited. He originally carried out work for the company as an independent contractor and became an employee with effect from 1 July 2017. He is employed on pensionable terms.

**Peter's current remuneration package is as follows:**

His salary is K6,240,000 per year from which 5% is deducted as his contribution to a pension fund.

He is provided with the use of a rent free house. The company pays K110,000 per month for the rent of this house.

He has membership of a medical scheme to which his employer contributes K12,000 per month.

He is awarded a bonus cheque of K520,000 which was paid with his salary for December 2017.

In addition to the above, Peter's employer pays him the following amounts towards his annual expenses:

	K (per annum)
Allowance for electricity and water	1,140,000
Car allowance	1,440,000

Peter's expenses, which he pays from his net pay, include:

	Note	K (per annum)
Electricity and water		1,200,000
Car running costs	(1)	822,000

**Note:**

- (1) Peter uses his own car for his employment as well as for private purposes. The amount of K822,000 represents his total car running costs for both purposes.

**Peter's proposed remuneration package is as follows:**

From 1 July 2018, the company is considering paying Peter a salary of K10,500,000 per year and no bonus will be paid.

He will not receive any additional amounts from his employer, or any other benefits in kind.

The pension contribution will continue to be deducted from his salary at the same rate as for his current remuneration package.

He will continue to live in the same house, taking over the lease from his employer at the same rental cost which will be paid from his net pay.

Peter wishes to continue membership of the medical scheme and he will make the contribution of K12,000 per month himself from his net pay.

He will use his own car for private purposes only and his employer will hire a car for use in his employment. As a result, his annual car running costs will reduce to K480,000.

Peter's electricity and water expenses will remain the same and will continue to be paid from his net pay.

**Required:**

**(a) Calculate the following:**

- (i) Peter's taxable employment income for his current remuneration package and for his proposed remuneration package.**

Note: You should list all the items referred to in the question, indicating by the use of a zero (0) any items which are not taxable or deductible. (5 marks)

- (ii) Peter's income tax payable for his current remuneration package and for his proposed remuneration package.**

Note: You should assume the tax rates will remain unchanged in 2018/2019. (3 marks)

- (b) Calculate Peter's disposable income after tax and expenses for each remuneration package and state which package he should choose.** (7 marks)

**(15 marks)**

- 6 Njuli Coffee Limited is a company incorporated in Malawi. The company makes coffee for use in the confectionery business, as well as owning and operating farms.

The company's income statement for the year ended 31 December 2017 shows a profit before tax of K2,500,000 after taking into account the following items numbered (1) to (5):

(1) **Other income:**

	K
Bank interest (net)	435,000
Profit on sale of equipment	125,000
Dividend (net)	65,000
Rental income	650,000
	<u>1,275,000</u>

The profit on sale of equipment was realised from the sale of coffee making equipment, which was sold for K125,000 on 1 October 2017. The equipment was originally purchased in April 2009 and had a nil book value and a tax written down value of K45,000 as at 1 January 2017.

(2) **Expenses:**

	K	K
Depreciation		650,500
Donations – Save the Children	30,000	
– local church	<u>80,000</u>	
		110,000
Fringe benefits tax		275,500
Trade mark registration		105,000
Entertainment (60% business)		255,000
Farm expenses (Note 3)		4,500,000
Loss on sale of motor vehicle (Note 4)		35,000

(3) Farm expenses are made up of:

	K
Direct farm expenses	895,000
Farm overheads	247,800
Purchase of additional farm land	1,653,400
Land clearing costs	758,800
Dam construction	945,000
	<u>4,500,000</u>

- (4) The loss on sale of motor vehicle arises from the sale of a pick-up truck to the farm manager on 1 July 2017 for K40,000, when the book value was K75,000. The market value on the date of sale was K50,000. The vehicle had a nil tax written down value on 1 January 2017.

- (5) Interest of K675,000 was charged during the year on a loan obtained to fund the farm expenses.

**Further information:**

The following assets were bought during the year ended 31 December 2017:

	Cost K
Motor lorry	3,500,000
Plant and equipment	850,000
Passenger motor vehicle	990,000

All other assets had a nil tax written down value as at 1 January 2017.

**Required:**

**Calculate the taxable income of Njuli Coffee Limited for the year ended 31 December 2017.**

Note: You should start your answer with profit before tax of K2,500,000 and indicate with a zero (0) any item listed in the question which does not result in an adjustment in arriving at taxable income.

**(15 marks)**

**End of Question Paper**